S. HRG. 98-896

AMENDMENTS TO THE UNITED STATES GRAIN STANDARDS ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION, MARKETING,
AND STABILIZATION OF PRICES

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

S. 2546

A BILL TO EXTEND THROUGH SEPTEMBER 30, 1988, THE PERIOD DURING WHICH AMENDMENTS TO THE UNITED STATES GRAIN STANDARDS ACT CONTAINED IN SECTION 155 OF THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981 REMAIN EFFECTIVE, AND FOR OTHER PURPOSES

APRIL 12, 1984

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AMENDMENTS TO THE UNITED STATES GRAIN STANDARDS ACT

THURSDAY, APRIL 12, 1984

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION,
MARKETING, AND STABILIZATION OF PRICES,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:28 p.m., in room 328–A, Russell Senate Office Building, Hon. Mark Andrews presiding.

Present: Senator Andrews.

STATEMENT OF HON. MARK ANDREWS, A U.S. SENATOR FROM NORTH DAKOTA

Senator ANDREWS. The subcommittee will come to order.

This hearing is on a bill, S. 2546,[1] that I introduced by request. It is the administration bill to extend the life of the Grain Inspection Service through September 1988.

Dr. Ken Gilles is the administration witness; Mr. Irmen of Ohio is representing the National Grain and Feed Association, which supports the bill, and Mr. Larkin, of the Tidewater Grain Co., represents the National Trade Grain Council of Philadelphia, which also supports the bill.

We would like to hear first from Dr. Ken Gilles, who is the administration witness.

Let me assure you that your statement, Dr. Gilles, will be included in the record in its entirety. Given the situation on the floor, if you want to summarize it and let us get some questions in, we will probably have the best chance of getting the hearing concluded before we have two or three more record votes.

STATEMENT OF DR. KENNETH A. GILLES, ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Dr. GILLES. Thank you, Mr. Chairman.

I would like to take this opportunity to summarize briefly the statement that has been prepared and have the statement entered into the record, if I may.[2]

[1] See p. 17 for a reprint of S. 2546.
[2] See p. 9 for the prepared statement of Dr. Gilles.

We would also enter into the record the last two annual reports of this agency, which I believe will provide some accurate background information.

Senator ANDREWS. We will file the annual reports, Doctor, with the committee for their reference.

Dr. GILLES. Then, with your permission, Mr. Chairman, I would like to read an abbreviated statement.

Senator ANDREWS. Fine.

Dr. GILLES. We believe the national inspection system, a collaboration of Federal, State, and private agencies, operates efficiently and effectively in delivering its official services. It benefits the industry that it serves and the public to which it is accountable.

The Omnibus Budget Reconciliation Act of 1981 required collection of user fees to cover administrative and supervisory costs related to official grain inspection and weighing; imposed a 35-percent limitation on administrative and supervisory costs authorized appropriations for standardization, compliance, and foreign monitoring activities, and an advisory committee.

It also provided a sunset clause for this agency, effective September 30, 1984.

This administration's user-fee policy requires users, who benefit from Government-provided services, to pay the associated costs. This change has reduced Federal outlays of approximately $24 million in fiscal year 1981 to approximately $6.9 million in the current fiscal year. Services which benefit the public continue to be funded by appropriations.

The new funding arrangement changed FGIS from a 58-percent user-fee and a 42-percent appropriation-supported agency in fiscal year 1981 to approximately an 84-percent user-fee funding in the current fiscal year.

The total operating costs for fiscal year 1981 were $57 million, and during the following 2 fiscal years operating costs were reduced to $45 million, and to $39 million; a reduction of $18 million in 2 years.

Our full-time permanent staffing levels have been reduced from over 1,770 Federal employees in September 1980 to less than 900 today. We now have a lean and cost-effective staff, doing a good job.

We have proposed that the 35-percent limitation on administrative and supervisory costs be eliminated. This 35-percent limitation, unique to our agency, presents a challenge to effective management. We have substantially reduced administrative costs, but as the volume of grain moving through the marketing channels decreases, the administration and supervisory costs increase as a percentage of the total costs. This occurs because of the need to retain certain facilities and a cadre of technically qualified personnel to ensure that the official services are provided in a timely manner. Deletion of this limitation would permit more effective management of resources, tuned to long-term consideration of grain marketing needs.

FGIS has undergone significant changes. We have reordered the priorities, refocused the direction, and shifted emphasis from a headquarter-centered to a field-based program. The administrative layers between the field and the headquarters were eliminated,

and more authority has been delegated to the field office managers and official agency managers.

Our revenue is directly related to the volume of grain exports. Since the 1980 grain embargo, exports have trended downward. Retained earnings have dropped from $7.8 million at the end of fiscal year 1981 to $3.7 million by the end of fiscal year 1982, and in fiscal year 1983, FGIS sustained an operating loss of $1.6 million. This loss would have depleted our retained earnings to $2.1 million on September 30, 1983. However, our conversion in 1983 from a cost accrual accounting system to an obligations cost accounting system resulted in a positive accounting adjustment of $1.8 million due to deobligation. This brought our retained earnings balance to $3.9 million.

We received a supplemental appropriation of $6 million to recapitalize the revolving fund. These funds have enabled FGIS to maintain sufficient operating reserves to make decisions based on long-term program considerations rather than management by crisis. These funds are considered a line of credit to be used only if needed and to be repaid to the Treasury within 3 years. To date, it has not been necessary to use these funds. We have also adjusted fees, effective January 1983, to counter the eroding revenue base.

In the area of regulatory relief, we have rescinded the 1980 rule requiring the use of diverter-type mechanical samplers on domestic barge shipments, export rail, and truck shipments and export cargo shipments for sacked grain. The rule was incompatible with barge loading and trading practices, and would create an undue burden on small shippers.

We rescinded rules requiring official inspection and weighing of all grain shipped by rail and truck to Canada and Mexico. These services continue to be provided on a request basis.

In the area of foreign complaints, in fiscal year 1983, approximately 176 million metric tons of domestic grain and 114 million metric tons of export grain were inspected under the act. We received 13 formal and informal quality complaints and 3 formal weight complaints from foreign countries. Only one weight complaint was deemed valid and was resolved with the importing country.

Considering the total volume of grain exported, this suggests good buyer satisfaction.

In calendar year 1983, the U.S. grain industry had one of its best safety records in over 20 years. The grain industry deserves much of the credit. Another factor is the research and education projects aimed at reducing elevator fires and explosions undertaken by the industry, trade organizations, labor associations, the USDA, and the academic community.

An advisory committee of 12 members represents the interests of all segments of the grain industry, provides invaluable advice to the administrator, and comprises an important forum for grain industry representatives and FGIS policymakers to interact and exchange views on a regular basis.

In conclusion, I believe the continuation of this agency within the Department of Agriculture fills a real need, a need to maintain the integrity of the national inspection system so that both the do-

mestic and foreign buyers of U.S. grain can be assured of the quality and quantity of grain they purchase.

Mr. Chairman, this concludes my statement, and I would be pleased to respond to questions.

Senator ANDREWS. Thank you.

Doctor, in your experience, has the user-fee program worked well?

Dr. GILLES. Yes, sir, it has. It has presented a challenge to management, but I think we have met that challenge.

Senator ANDREWS. The bill provides that you be extended only through 1988. Why didn't the administration request a permanent authorization for the Inspection Service?

Dr. GILLES. That was given some consideration, but we thought that inasmuch as this is an agency that is primarily funded by user fees, it seemed appropriate that in a 4-year period, the record be examined once again.

Senator ANDREWS. Can you live with some limitation? Why do you oppose the 35-percent cap on administrative costs?

Dr. GILLES. The 35-percent cap has caused quite a few administrative problems in that there are certain costs that really represent a substantial investment as a fixed cost, and as exports go down, the percentage of that fixed cost relative to total cost, increases.

For this reason, we would prefer to see the cap increased.

Senator ANDREWS. That is the trouble with being around here too long. I remember when it was started, one of the first budget requests was made to the committee on which I served with Chairman Whitten, and the Federal Grain Inspection Service—and I am remembering this off the top of my head—I think, was asking for 75 to 80 percent of its personnel to be in the Washington area. Well, there is not a whale of a lot of grain that gets inspected in the Washington area, and we thought that was a little bit heavy on the bureaucracy. That is why I have been suspicious, and that is one of the reasons this 35-percent figure has always been around So, you understand where we are coming from.

Dr. GILLES. Yes, sir.

Senator ANDREWS. Actually, if you got fewer people to administer out in the field, because grain inspection is down, you would almost think you could do it with fewer administrative-type people in the headquarters.

Dr. GILLES. That is correct, but the fixed costs also must be considered as part of that. Our rents continue, our leases of equipment, and these types of things that are nonrevenue-producing are associated with administrative and supervisory costs.

Senator ANDREWS. I think that the industry and the farmers want to keep you lean and mean and doing a good job, and not have you spend too much of the money on that overhead.

Both the cotton classing bill and the Warehouse Examination Program have investment authority from user-fee operating balances. Why not invest these funds, too?

Dr. GILLES. This is what was proposed earlier today, and the official position of the Department is that we have no position on this particular matter, sir.

Senator ANDREWS. So the initial position is no position?

Dr. GILLES. Yes, sir.

Senator ANDREWS. That gives us a lot of leeway.

Thank you, Doctor.

Dr. GILLES. Thank you.

Senator ANDREWS. In the interest of time, I might suggest that the two industry witnesses could appear as a panel, because I am sure you have places you would like to go—both Mr. Larkin and Mr. Irmen.

Gentlemen, would you come up to the table, please?

We have a copy of your statement, Mr. Irmen, and your statement, Mr. Larkin. We will put your statements in the record.[1] So, you have already made your statement. What we are trying to do is make a record, so when we take this bill to the floor, of course, we will have the material.

STATEMENT OF T.L. IRMEN, FIRST VICE PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION, MAUMEE, OH, AND ROGER LARKIN, PRESIDENT, TIDEWATER GRAIN CO., ON BEHALF OF NATIONAL GRAIN TRADE COUNCIL, PHILADELPHIA, PA

Senator ANDREWS. Now, if I could ask you gentlemen as a panel—you can both respond to this—what happens, in your judgment, if Congress does not pass this measure?

Mr. LARKIN. I think we have a major problem in terms of providing the simple functions of weighing and inspection, because most of the grain exchanges that provided that function prior to the creation of the Federal Grain Inspection Service no longer exist, or are terribly depleted.

Mr. IRMEN. I have basically the same answer, Senator. We are right now, for exports, totally dependent on the Federal Grain Inspection Service. There are some substitute agencies in the field, out in the interior, in the domestic market, but we are totally dependent on FGIS for the export inspection and weighing.

Senator ANDREWS. In your feeling, does the Federal Grain Inspection Service help make our commodities more attractive to overseas purchasers?

Mr. IRMEN. My feeling is that we have improved the quality of grain going out of the country. I think part of Dr. Gilles' testimony testifies to that, in just the number of complaints that have come back since their close scrutiny on quality. I think the quality of their service, the quality of their leadership is such that they are doing a fantastic job.

Senator ANDREWS. In your minds, then, the Service is working well for the goals that we have?

Mr. IRMEN. Yes, sir. In fact, I think a large deal of that credit goes to Dr. Gilles and his senior staff for providing that kind of leadership. The exercise they have gone through in the last 3 years, of cuts, could not have been a very pleasant experience, and I think they are to be commended. The industry at-large is delighted with the performance that has occurred in the last 3 years within FGIS.

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[1] See p. 12 for the prepared statement of Mr. Irmen and p. 15 for the prepared statement of Mr. Larkin.

Senator ANDREWS. And I can well understand that, because Dr. Gilles is indeed an outstanding and a fantastically unique individual. But because of the fact that we have to design a law to operate with someone heading up that agency if and when Ken might decide to retire, what improvements could we make to the law that might keep the system functioning effectively if we did not have a brilliant a leader as Dr. Gilles at the helm?

Mr. IRMEN. I think one of those things, Senator, is the retention of the cap that we have on FGIS. National Grain and Feed is now on record as of this morning of supporting an increase of that cap from 35 to 40 percent, but we do not want to give that up. We are fearful that there could be a return to the problems that we had in prior years.

Senator ANDREWS. Before Dr. Gilles came onboard.

Mr. IRMEN. Yes.

Mr. LARKIN. Could I go back to another question you asked in terms of credibility. If you go back prior to the creation of the Federal Grain Inspection Service, we used to get complaints with respect to weights and grades that were not justified if the foreign buyer had the grain and bought it considerably higher than the grain market. He would make a complaint in an effort to get some kind of redress.

We do not have those kinds of complaints anymore. And in our experience in Philadelphia, we have not had a complaint on either weights or grades. We do not get the kinds of inquiries we once got.

Senator ANDREWS. And given the challenge to our nation's economy and the imbalance of payments, it is a challenge that can only be addressed by increasing our exports, and you feel it is imperative that it be passed.

Mr. LARKIN. The credibility is there and is accepted. The experience is good.

Senator ANDREWS. Do you have any other suggestions as to amendments or improvements in the act, the way it has been written?

Mr. LARKIN. With two points, I think. One is that the cap on administrative costs, we would like to keep a cap, but we would be willing to modify that to the extent of 40 percent as a maximum, but not to give up the concept. And the other point, with respect to user-fee funds that are accumulated, we think those ought to be able to earn interest as some of the other programs are. As a prudent businessman, to have funds that do not earn interest when they are not used does not make good sense.

Senator ANDREWS. Do you have anything further to add, Mr. Irmen?

Mr. IRMEN. I would like to add one more thing. In the initial authorization of FGIS back in 1981, there was a congressional mandate to incorporate an FGIS advisory committee. I had the privilege of serving on that committee under Dr. Gilles' leadership since its creation, and I think that, too, ought to be retained. I think, especially the way he runs the agency, that it would provide the continuity of service that you are concerned about, because industry does have the chance to say—all segments of the industry, from the farmer all the way to the processor/exporter are represented, and we are given homework assignments between meetings to bring in.

It is a well-run committee, and we have a good listening audience in Dr. Gilles and his senior staff.

So I think it is—I would not call it a "marriage"—but it is certainly a well-coordinated effort between industry to satisfy a common need.

But that interchange also leads to action, as opposed to being just simply a soundingboard. It serves a good function.

Senator ANDREWS. Do you have anything further to add?

Mr. IRMEN. I do not think so.

Mr. LARKIN. I do not think so. I think we have covered the points that we had lined up.

Mr. IRMEN. Certainly, the major points of my testimony have been made. In my written testimony, as you perhaps have seen or will see, I commended Dr. Gilles very highly, and also Congress, because I think Congress was very, very wise in what they did the last time around in 1981. I do not think, without a joint effort between Congress, FGIS, and industry, we would have had the results that we have experienced in the last 3 years.

Senator ANDREWS. Well, not only did we structure the legislation so it was responsive to the needs, but we picked the very best individual we could to run the program.

Mr. IRMEN. I understand you picked him, so you are going to have a little bias there.

Senator ANDREWS. Well, just a little bit. We do not want to get too much of that in the record. His sterling characteristics just shone through the fog, and even if he had come from some out-of-the-way State, I am sure we would have found him and put him in that spot. We are just extremely fortunate to have him there, and we want to make sure that the progress we have made in this very, very important field continues. Having watched it in the beginning, as I say, at the very start, when Mr. Whitten and I served together for so many years over in the House, the difference is fantastic, and we do appreciate it. I do appreciate your taking the time to come in.

Mr. LARKIN. One thing I would like to add is that your subcommittee scheduling the hearings for this particular day is a special asset to those of us who are out-of-town, and we want to express our thanks for that.

Senator ANDREWS. Well, we realize the difficulty of coming to Washington, and the unnecessary expense that two trips would put you to, and that is, of course, one of the things that we run into, when we have an afternoon hearing, to accommodate you with a tax bill on the floor of the Senate, the hearings get a little hyphenated, and perhaps, strange, to a person who does not understand how it goes on. But we have made a very complete record, thanks to the three of you, a complete record from the standpoint of the administration, and for most people who use it, and it will give us a good base to make our decision on as we move this legislation.

Thank you very much.

[Whereupon, at 2:47 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. WALTER D. HUDDLESTON, A U.S. SENATOR FROM KENTUCKY

S. 2546 will extend, for four years, the current grain inspection and weighing user fee system.

The current fee system was implemented in 1981, as a result of changes in the law made by the Omnibus Budget Reconciliation Act of 1981. Without action by Congress this year, the authority for the current system provided in the 1981 legislation will expire September 30, 1984.

The most important change in the fee system made in 1981 was to require the Federal Grain Inspection Service to collect reasonable fees to cover the Service's costs incurred in supervising grain inspection and weighing performed by State and private agencies. These fees, together with the fees charged by the Service for inspection and weighing performed by the Service itself, have enabled the Service to cover the bulk of its costs with funds paid by the users of grain inspection and weighing services.

The administration supports an extension of the current user fee system and has requested that S. 2546 be enacted.

The continued integrity and efficiency of the national grain inspection and weighing system are important to U.S. farmers. This system is essential to the orderly and timely marketing of grain, and provides assurances to our foreign customers as to the quality and quantity of grain they purchase.

Therefore, I look forward to reviewing the testimony of the witnesses at today's hearing on the effectiveness of the current user fee system.

I would also encourage the committee to act expeditiously on this matter to avoid any possible disruption of the Federal Grain Inspection Service's supervisory operations or the smooth functioning of the national inspection and weighing system.

STATEMENT OF DR. KENNETH A. GILLES, ADMINISTRATOR, FEDERAL GRAIN INSPECTION SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Subcommittee: Thank you for the opportunity to appear before this Subcommittee today. The Federal Grain Inspection Service (FGIS) manages the "national inspection system" by providing the "service" of inspecting and weighting grain and related commodities under the United States Grain Standards Act (Act) and the Agricultural Marketing Act of 1946 (AMA). Congress has mandated that grain exported from the U.S. be officially inspected and weighed. Domestically, the use of the official inspection system is permissive.

The congressional policy expressed in the Act is that the national inspection system be a collaboration of Federal, State, and private agencies. Under this arrangement, the national inspection system operates efficiently and effectively in the delivery of its official services, benefits the industry it serves and the public to which it is accountable. As a result, the public perception of FGIS has changed. Three years ago, it was viewed, by the industry, as a government agency going out of control. It is now perceived as a "no frills" organization that provides an important governmental inspection and weighing service to the public.

OMNIBUS BUDGET RECONCILIATION ACT OF 1981 (OBRA)

The amendments included in the OBRA, effective for the period October 1, 1981, through September 30, 1984, required collection of user-fees to cover administrative and supervisory costs related to official grain inspection and weighing, imposed a 35 percent limitation on administrative and supervisory costs, authorized appropriations for standardization, compliance, and foreign monitoring activities, and a required advisory committee. The primary objective of these congressionally-mandated

changes was to enable FGIS to effectively carry out its mission so "that grain may be marketed in an orderly and timely manner and that trading in grain may be facilitated."

USER-FEES

Under this legislation, the Federal Government recovers from the users of the official grain inspection and weighting services, the full costs of the services. Federal supervision of this work is an essential and integral part of these services. Simply put, this Administration's user-fee policy requires users, who benefit from Government-provided services, to pay the associated costs. This change has reduced Federal outlays of approximately $24 million in fiscal year 1981 to approximately $6.9 million in the current fiscal year. Services which benefit the public continue to be funded by appropriations.

Our experience with this full cost funding shows that more can be accomplished with less, while fully maintaining the integrity of the service. The FGIS program, under the prior user-fee arrangement, was market-insulated as opposed to the market-based approach of full-cost funding which forces cost-efficiency in program administration and cost-effectiveness in program delivery.

The new funding arrangement changed FGIS from a 58–42 percent user-fee/appropriation funds ratio in fiscal year 1981, to approximately an 84–16 ratio in the current fiscal year. Total operating costs for fiscal year 1981 were $57 million, which was well under our original budget estimate of $62.6 million. With the discipline of increased user-fees in effect during the following two fiscal years, 1982 and 1983, total operating costs were reduced to $44.7 million and $38.6 million, respectively. This represents a reduction of $18.4 million in two years. In short, we have sought to put FGIS' financial house in order.

Our full-time permanent staffing levels have been reduced from over 1,770 Federal employees on September 30, 1980, to less than 900 today. This has been painful, but necessary. We now have a lean and cost-effective staff of Federal employees, and they are doing a good job.

LIMITATION ON ADMINISTRATIVE AND SUPERVISION COSTS

We have proposed, for consideration by this Committee, that the 35 percent limitation on administrative and supervisory costs be eliminated. In our judgment, when the limitation was initially imposed, ample justification existed for it. However, this 35 percent limitation, unique to our Agency, presents a challenge to effective management of the program. We have substantially reduced the administrative costs of doing business and will continue to do so. But, as the volume of grain moving through the marketing channels decreases, the administrative and supervisory costs increase as a percentage or proportion of total costs. This anomaly occurs because of the need to retain facilities and a cadre of technically qualified personnel to ensure that official services are available and provided. With this limitation, highly trained employees may be discharged only to be rehired again, if the workload increases and they are available. Generally, administrative costs are not expected to substantially exceed 35 percent during any period. Deletion of this limitation would permit more effective management of resources, tuned to long-term consideration of grain marketing needs.

FIELD-BASED PROGRAM

With the implementation of expanded user-fees, FGIS has undergone significant changes. We have reordered the priorities, refocused the direction, and shifted emphasis from an essentially headquarter-centered to a field-based program. Administrative layers between the field and headquarters were eliminated and more authority was delegated to field office managers and official agency managers.

Functions have been transferred to the field where they can be more efficiently performed at less cost. Field offices are held strictly accountable for operating their programs in a cost-effective manner. Functions have been transferred to officially delegated States and designated private inspection agencies. Authority for scale testing and certification is now being performed by seven of the eight delegated State agencies which are at a level closer to the grain industry. Additional responsibilities for performing official inspection and weighing services are being shifted to the States of Washington and California. Savings will be passed on to the States by lower supervision fees. Appropriate levels of oversight monitoring and supervision will continue.

We have also established an agreement with the Agricultural Marketing Service to cross-utilize personnel when performing certain USDA marketing services under the AMA.

In cooperation with industry representatives, we have devised new procedures to improve the efficiency and economy of inbound truck and submitted sample inspections. The new procedures permit designated agencies to provide inspection services that more directly respond to industry's needs.

To improve the accuracy and consistency of grain inspection, we have developed a quality assurance program that is being implemented. Under this plan, a quality assurance specialist stationed at each field office will serve as the technical link between field inspectors and the Board of Appeals and Review. Working with industry representatives, the licensing program of official inspection personnel was evaluated. As a result, we have transferred major parts of this function to the field offices and official agencies to be handled more effectively and at lower costs.

FINANCIAL MANAGEMENT

Despite the best efforts to get costs in line with revenues, FGIS continued to sustain revenue shortfalls resulting in operating losses. Our revenue is directly related to the volume of grain exports. Since the 1980 Grain Embargo, exports have trended downward. Retained earnings dropped from $7.8 million at the end of fiscal year 1981 to $3.7 million by the end of fiscal year 1982. In fiscal year 1983, FGIS sustained an operating loss of $1.6 million. This loss would have depleted our retained earnings to $2.1 million on September 30, 1983. However, very signfiicant was our conversion, in fiscal year 1983, from a cost-accrual accounting system to an obligations cost-accounting system. This resulted in a positive accounting adjustment of $1.8 million, bringing our retained earnings balance to $3.9 million on September 30, 1983.

We received a supplemental appropriation of $6 million in early fiscal year 1984 to recapitalize the revolving fund account. These funds have enabled FGIS to maintain sufficient operating reserves to make decisions based on long-term program considerations, rather than management by crisis. These funds are considered a line of credit, to be used only if needed and to be repaid to the Treasury within three years.

We also adjusted fees, effective January 1983, to counter the eroding revenue base. Fees are constantly monitored and analyzed to determine changing cost-patterns.

REGULATORY RELIEF

We rescinded the 1980 rule requiring the use of diverter-type mechanical samplers on domestic barge shipments, export railcar and truck shipments, and export cargo shipments for sacked grain. Elevator operators and grain merchandising companies argued that the rule was incompatible with barge loading and trading practices and would create an undue burden on small shippers who load grain in land carriers for Mexico and Canada.

We rescinded rules requiring official inspection and weighing of all grain shipped by rail and truck to Canada and Mexico. These services are provided on a request basis.

FOREIGN COMPLAINTS

In fiscal year 1983, approximately 176 million metric tons of domestic grain and 114 million metric tons of export grain were inspected under the Act. We received thirteen formal and informal quality complaints and three formal weight complaints from foreign countries. After investigation, only *one weight complaint was deemed valid and was resolved* with the importing country.

SAFETY

In calendar year 1983, the U.S. grain industry had one of its best safety records in over 20 years. The grain industry deserves much of the credit for the improved safety record. Another factor is the research and educational projects undertaken by the industry, trade organizations, labor associations, USDA, and the academic community aimed at reducing elevator fires and explosions.

In 1982, the Secretary also established the Grain Storage, Handling, and Procesing Safety Coordinating Subcommittee, which I chair, to coordinate grain elevator safety activities for USDA. It is comprised of agencies within USDA and works closely with the grain industry and other private and public sector organizations.

There have been no Federal employees injured or killed in elevator explosions during the past three years. In cooperation with the industry and other government agencies, we have an aggressive safety program that is working and paying dividends toward ensuring a safe working environment for elevator employess.

ADVISORY COMMITTEE

The Secretary established the FGIS' advisory Committee on September 29, 1981. Twelve members and 12 alternates representing the interests of all segments of the grain industry, including grain inspection and weighing agencies, were appointed. Throughout this period, the Committee has provided invaluable advice to the Administrator on the many difficult program and financial issues confronting FGIS. The Committee represents an important forum for grain industry representatives and FGIS policy makers to interact and exchange views on a regular, quarterly basis. The Committee's contributions to the improvement of the public perception of FGIS and its improved performance have been outstanding.

CONCLUSION

FGIS serves as an impartial third party which facilitates grain trading. FGIS is directly responsible for (1) developing nationwide standards; (2) managing and coordinating the program for mandatory inspection and weighing services at export locations; (3) Federal oversight of all official agencies performing inspection and weighing services at locations within the United States; (4) providing permissive services for U.S. grain shipped through Canadian ports; and (5) providing, on request, inspection and weighing services for rice and related commodities.

The continuation of this Agency within the Department of Agriculture fills a real need—a need to maintain the integrity of the national inspection system so that both domestic and foreign buyers of United States grain can be assured of the quality and quantity of grain they purchase.

Mr. Chairman, this concludes my statement. I will be happy to respond to any questions you or other members of the Subcommittee may have.

STATEMENT OF T.L. "SAM" IRMEN, FIRST VICE PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION

Mr. Chairman and Members of the Subcommittee: My name is T.L. "Sam" Irmen, General Partner for Government, Trade and Partner Relations for The Andersons of Maumee, Ohio. I am First Vice President of the National Grain and Feed Association, and Chairman of the Grain Grades and Weights Committee of the National Association, on whose behalf this testimony is presented today.

The National Grain and Feed Association is pleased to participate in these hearings, and wants to commend the Federal Grain Inspection Service for its turnabout in three short years into an agency that is much more efficient, responsive and capable than the one that came before Congress for reauthorization in 1981. We believe that the reorganization that has occurred within FGIS is a prime example of the efficiencies that can be brought to a government agency through concerted action by the Congress, the agency, and the affected industry that pays for the service rendered by the agency. The National Grain and Feed Association believes FGIS merits reauthorization by the Congress for four years.

However, we think that the prudent statutory controls that Congress wisely enacted as part of the Omnibus Budget Reconciliation Act of 1981 played a major contributing role in the transformation of FGIS. The congressional direction, intent, and protection that these statutory controls provide should be retained.

The National Grain and Feed Association is a voluntary association of grain and feed firms ranging in size from the smallest country elevator to the largest grain and feed complex. Our members include merchandisers, processors, warehousmen and exporters of a wide spectrum of grains and feeds. The National Association is comprised of 1,300 direct memberships by individual companies, as well as 45 affiliated state and regional grain and feed associations whose memberships include more than 10,000 grain and feed firms nationwide.

Members of the National Grain and Feed Association are vitally interested in maintaining the integrity and independence of our grain inspection and weighing system. Our members are users of inspection and weighing services, and pay for those services. No group could be more concerned that the inspection and weighing of grain be efficient, cost-effective and above reproach.

The National Association's support of the U.S. Grain Standards Act has a long and well-documented history. The National played a pivotal, leadership role in the enactment of the first Grain Standards Act in 1916. It was the grain industry that initiated, worked for and recommended the rules for uniform grain standards and inspection procedures so that commerce might be conducted in an orderly and timely manner. We have been actively involved in each revision of the Act since that time.

In many ways, 1981 was a watershed year for FGIS. During the late 1970s, the agency clearly had lost sight of its statutorily defined mission. Costs were out of control. A multi-layer, burdensome bureaucracy was in place, consisting of regional offices, field offices, and suboffices. The FGIS bureaucracy in 1981 was so extensive that for every 2.3 persons actually performing inspection and weighing duties for the government, one additional person was employed by FGIS in an "administrative or supervisory" capacity. And FGIS was duplicating the activities and functions of other government agencies.

All the while, the quality, accuracy and consistency of official inspection and weighing were on the decline. Congress actually had intervened to begin redirecting the agency in 1980 by passing the so-called Dole-Ashley bill. This legislation—bitterly opposed by the entrenched FGIS bureaucracy at the time—amended the U.S. Grain Standards Act to exempt from mandatory FGIS weighing all intra-company truck and rail shipments, and all other inbound rail and truck shipments if contractually agreed to by the buyer and seller.

It was into this environment that Dr. Kenneth Gilles arrived, after more than 20 years as a distinguished cereal chemist, researcher and administrator at North Dakota State University. The last dozen of those years had been spent as the university's first Vice President for Agriculture. He and his senior staff in 1981 began a determined reorganization of the agency, for which they are to be commended. It is a reorganization that the National Association had urged and which we supported through numerous communications and meetings with USDA and administration officials.

But it was through the Budget Reconciliation Act of 1981 that Congress refocused FGIS on its mission, and provided the essential mandate for reorganization. The industry, which had since FGIS' inception in 1976 been responsible for paying the actual cost of the inspection and weighing of grain, was now being asked by the administration to pick up the tab for the agency's administrative and supervisory costs. There arose a need to develop an acceptable mechanism for controlling these diverse FGIS' costs, as well as for making the agency accountable and responsive to the Congress and to the industry that was paying for the service.

In 1981, Congress in its wisdom mandated three important provisions to accomplish this end: First, a ceiling was placed on the percentage of funds FGIS could spend for supervision and administration of its inspection and weighing programs, thereby preventing open-ended and uncontrollable expenditures. Second, Congressional oversight was maintained by requiring reauthorization of the agency in three years. And third, an advisory committee was established to provide constructive evaluation and make recommendations to the agency on FGIS' organization and programs affecting the industry. The National Association vigorously supported these amendments.

Today, FGIS is a far leaner and more efficient agency, with a much clearer grasp of its scope and mission. It is a mission that Congress carefully spelled out in the Preamble of the U.S. Grain Standards Act: "To provide for the establishment of official United States Standards for grain, to promote uniform application thereof by official inspection personnel, to provide for an official inspection system for grain, and to regulate the weighing and the certification of the weight of grain shipped in interstate and foreign commerce in the manner hereinafter provided; with the objectives that grain may be marketed in an orderly and timely manner and that trading in grain may be facilitated."

The results can be quantified by comparing the agency's organization, operations and budget in 1981 with what is in place in 1984.

—In 1981, FGIS consisted of a headquarters office, five regional offices, 42 field offices and six suboffices located in 26 states and Canada. By the end of fiscal year 1983, FGIS had rid itself of the five regional offices—a needless bureaucratic layer. And the number of field offices had been reduced to 31.

—In 1981, the number of FGIS' full-time permanent staff peaked at 1,778 persons, after a continuing increase since 1977. By the end of fiscal 1983, the number of full-time federal staff had been reduced to 848.

—In fiscal 1980, total FGIS expenditures peaked at $57 million, consisting of $33 million in industry-paid user fees and $24 million in appropriated funds. In fiscal

1983, the agency spent $38.6 million, $33.7 million of which were paid by the industry through user fees.

The efficiencies and streamlining within FGIS have actually been accompanied by improved quality and responsiveness in inspection and weighing service.

FGIS is to be commended for its increased efficiencies and cost-effectiveness. Yet the industry continues to pay the vast majority of the FGIS budget. For fiscal 1985, FGIS is proposing a $43.8 million budget. Of that amount, the industry will pay $36.9 million—nearly 85 percent—through user fees.

We believe the strict requirements of section 7C ("Limitation on Administrative and Supervisory Costs") of the U.S. Grain Standards Act have been a powerful force behind the improvement. The National Association believes that the 35 percent limitation on the level of FGIS administrative and supervisory costs for inspection and weighing has provided much-needed discipline on the agency. However, we also recognize the accounting problems this has caused the agency during a period of declining exports.

Therefore, the National Association urges that the language of section 7C be retained, with an upward adjustment of the ceiling on administrative and supervisory costs to 40 percent. This 40 percent figure is the same level we recommended to Congress three years ago during FGIS' most recent reauthorization. The 5 percent upward adjustment should provide ample flexibility to FGIS while at the same time retaining the statutory mechanism that has been so successful in restraining administrative and supervisory costs. If the cost of inspection, weighing and associated FGIS services is allowed to escalate unreasonably, it will decrease the voluntary use of the national inspection and weighing system. It also could, by adding to costs, hamper the ability of U.S. exports to compete in world markets.

We also believe that an industry paying nearly 85 percent of an agency's budget should have its user fee funds invested in a business-like manner. However, under current practice, the FGIS revolving fund—consisting of grain industry-paid user fees—is not invested in interest-bearing accounts. The user fees are simply deposited into a U.S. Treasury account, sitting idle until needed by FGIS to pay for the service rendered.

To correct this situation, the National Grain and Feed Association recommends that Congress direct that any user fee monies collected from the industry and placed into the FGIS revolving fund reserve, as authorized in Section 7(j) of the U.S. Grain Standards Act, be permitted to be invested by the Secretary of Agriculture in U.S. government securities to pay for services rendered under the Act. Any interest earned on this account should be credited to the account for use by the Secretary in providing such services. This change would result in grain industry-paid user fees being treated in a manner similar to what now is done for fees collected by the government from warehouse examination programs, as well as for what is proposed for cotton classing and for various agricultural commodities, such as meat, poultry, eggs, fruits and vegetables, under the Agricultural Marketing Act of 1946. Such a change would place inspection and grading programs on a comparable basis, removing the existing inequity. It also would provide additional revenues for FGIS operations and reduce the need for the agency to increase user fee charges.

The National Grain and Feed Association also believes that Congress should reaffirm its intent that FGIS have a constructive, meaningful advisory committee. The advisory committee, we believe, has performed an important two-fold function of bringing industry concerns and expertise to FGIS while serving as a sounding board that the agency can use to test proposals and ideas.

In conclusion, we wish to recognize and applaud the achievements and efficiencies brought about by Dr. Gilles and his senior staff. But we caution that the administration's proposal to remove the ceiling on FGIS administrative and supervisory expenditures would be unwise long-term policy. In the future, in the absence of such a ceiling and perhaps under different leadership, we could see a return to the types of abuses and inefficiencies that were rampant before, and which necessitated the ceiling in the first place.

The national inspection and weighing system has improved. Hopefully, even more efficiencies will be forthcoming. The retention of the ceiling on FGIS administrative and supervisory costs would continue to play an important role in fostering and encouraging such improvements.

Mr. Chairman, I thank you for the opportunity to testify today, and stand ready to respond to any questions that you or other memnbers of the Subcommittee may have.

STATEMENT OF ROGER LARKIN, REPRESENTING THE NATIONAL GRAIN TRADE COUNCIL

I am Roger Larkin, President of Tidewater Grain Company of Philadelphia, Pennsylvania and appear as the representative of the National Grain Trade Council. I am a member of the Council's Executive Committee and its Board of Directors.

The National Grain Trade Council is a national trade association whose policy-making members include grain exchanges, boards of trade, and national grain marketing associations.

We are pleased to have the opportunity to appear before this Subcommittee to testify on S. 2546, a bill to reauthorize the Federal Grain Inspection Service (FGIS) for four years.

The Council supports reauthorization of FGIS.

The Council opposes that provision of S. 2546 that would remove the spending limitation on administrative and supervisory costs.

FGIS was established in accordance with the provisions of the U.S. Grain Standards Act of 1976, Public Law 94-582, to administer that Act and to perform official inspection and weighing at export port locations and to supervise official inspection and weighing at domestic locations.

In 1981, the Administration proposed legislation to increase the proportion of FGIS's cost borne by the industry. Prior to 1981, FGIS collected fees to cover the costs of FGIS inspection and weighing of grain, excluding administrative and supervisory costs. The Administration's proposal was to authorize FGIS to recover increased user fees for FGIS inspection and weighing of grain and its supervisory activities.

The Administration's proposal for increased user fees was approved as a section of the Omnibus Budget Reconciliation Act of 1981. As approved, the legislation contained three significant features, as follows:

1. The total administrative and supervisory costs for inspection and weighing shall not exceed *35 percent of the total costs for such activities;*
2. Funds were appropriated to cover the costs for FGIS standardization and compliance activities and for its international monitoring program; and
3. An advisory committee was established, composed of representatives from all segments of the grain industry.

The Council opposes elimination of the spending cap.

FGIS, since 1981, has made great strides in improving its cost effectiveness and efficiency. We believe that it would be inappropriate and unfortunate to remove from the statute a real safeguard that has, since 1981, contributed to improved cost-effective and efficient operations. We feel that this spending cap has been a substantial contributing factor to these improved results.

During the first several years of FGIS's operation, its budget, with little regard to cost effectiveness and efficiencies, had increased each year. In fiscal 1981, its expenses totaled $57 million. In fiscal 1984, its budget was $41.6 million, of which $6.8 million was appropriated funds and $34.8 million was from user fees. In 1984, the industry-paid user fees accounted for 84 percent of the Agency's funding. The number of FGIS employees decreased from a 1980 peak of 1,778 to about 870 in 1983.

FGIS has made substantial progress in recent years, but we do not wish to face a future situation where these gains are reversed and FGIS costs and user fees begin to escalate. We believe the spending cap provides some protection against this possibility. We do understand the difficulties FGIS faces with the current spending cap of 35 percent and we would not oppose increasing the cap to 40 percent.

We believe the FGIS Advisory Committee, which was created in 1981, plays an important role in facilitating communication between the industry and FGIS.

The Advisory Committee is composed of 12 members representing all segments of the industry, including producers and persons from grain inspection and weighing agencies.

The Committee has contributed to development of a cooperative working relationship between FGIS and the entire grain industry, replacing the adversarial relationship which existed before. The Council strongly supports the Advisory Committee and believes it is a positive development.

Lastly, the 1981 amendments provided FGIS standardization compliance, and international monitoring activities be financed by appropriated funds. We believe this is fitting and proper, as these activities are of general benefit to the public.

The grain industry and FGIS will face many challenges in the year and years ahead. You are well aware that agricultural exports are down from past years and there is no indication that this situation will change in the near future. For all segments of the grain industry, including producers, this means lean years in the near

term. For FGIS, with its reliance on user fees, it means unpredictability in estimating income and expenses. We remain optimistic about the long-term future.

Attached to our statement is a letter addressed to you from one of the Council's affiliated associations, the Terminal Elevator Grain Merchants Association (TEGMA), setting forth its views on S. 2546. TEGMA favors reauthorization of the Federal Grain Inspection Service, but opposes elimination of the cap on administrative and supervisory costs. TEGMA states it would support increasing the cap from 35 percent to 40 percent. TEGMA's membership includes 50 grain firms, cooperative and proprietary. These firms account for over one billion bushels of terminal grain storage capacity.

We ask that TEGMA's statement, as well as the full text of the Council's statement, be made a part of the hearing record.

TERMINAL ELEVATOR GRAIN MERCHANTS ASSOCIATION,
Minneapolis, MN, April 12, 1984.

Hon. MARK ANDREWS,
Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Committee on Agriculture, Nutrition and Forestry, Room 328A Senate Russell Office Building, Washington, DC.

DEAR SENATOR ANDREWS: On behalf of the Terminal Elevator Grain Merchants Association (TEGMA), I would like to offer the following comments on S. 2546.

We support the reauthorization of the Federal Grain Inspection Service, as proposed by this bill. We do not support the removal of the 35% cap on administrative and supervisory costs that can be funded through fees collected for inspection and weighing services. TEGMA would, however, favor raising the cap to 40% for such activities. This cap would encourage the Federal Grain Inspection Service to continue recent efforts to improve its cost-effectiveness and overall efficiency.

The Terminal Elevator Grain Merchants Association is comprised of 50 grain companies that operate 342 terminal facilities throughout the United States. We encourage the subcommittee to pass S. 2546 with the 40% cap on administrative and supervisory costs. Thank you for the opportunity to comment on this issue.

Sincerely,

JOHN J. HEALY,
Executive Vice President.

NORTHWEST TERMINAL ELEVATOR ASSOCIATION,
Minneapolis, MN, April 12, 1984.

Hon. MARK ANDREWS,
Subcommittee on Agricultural Production, Marketing and Stabilization of Prices, Committee on Agriculture, Nutrition and Forestry, U.S. Senate, Room 328A Senate Russell Office Building, Washington, DC.

DEAR SENATOR ANDREWS: I am writing on behalf of the Northwest Terminal Elevator Association in response to the drafted bill S. 2546. This association is comprised of 12 grain companies that own and operate terminal facilities in Minneapolis, St. Paul, Savage, and Duluth, MN and Superior, WI.

This legislation proposes to reauthorize the Federal Grain Inspection Service. We support the reauthorization of the Federal Grain Inspection Service. We also support retaining a cap on the amount of monies collected through providing inspection and weighing services that can be used to fund the administrative and supervisory costs incurred by providing those services. We feel that a cap similar to the 35% limit included in the present legislation is both reasonable and effective.

The Northwest Terminal Elevator Association would also like to commend the current administration and especially Dr. Kenneth Gilles as Administrator, for efforts to make the Federal Grain Inspection Service a more cost-effective and viable organization over the past 3½ years. As an industry that has had to cut costs substantially in recent years, we are encouraged that FGIS has done likewise.

We thank you for the opportunity to submit our comments on this issue, and encourage the subcommittee to pass S. 2546 with the cap on administrative and supervisory costs. I trust that you will enter these comments into the hearing record when appropriate.

Sincerely,

JIM BAIR,
Coordinator of Member Services.

II

98TH CONGRESS
2D SESSION

S. 2546

To extend through September 30, 1988, the period during which amendments to the United States Grain Standards Act contained in section 155 of the Omnibus Budget Reconciliation Act of 1981 remain effective, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 10 (legislative day, MARCH 26), 1984

Mr. ANDREWS (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To extend through September 30, 1988, the period during which amendments to the United States Grain Standards Act contained in section 155 of the Omnibus Budget Reconciliation Act of 1981 remain effective, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 155 of the Omnibus Budget Reconciliation Act of 1981 (95 Stat. 371), is amended by—

(1) deleting "Effective for the period October 1, 1981, through September 30, 1984, inclusive, the United States Grain Standards Act is amended by—",

and inserting in lieu thereof, "Effective for the period October 1, 1981 through September 30, 1988, inclusive, the United States Grain Standards Act is amended by—";

(2) deleting paragraph (3) thereof which reads:

"(3) adding a new section 7C as follows:

" 'LIMITATION ON ADMINISTRATIVE AND SUPERVISORY COSTS

" 'SEC. 7C. The total administrative and supervisory costs which may be incurred under this Act for inspection and weighing (excluding standardization, compliance, and foreign monitoring activities) for each of the fiscal years 1982 through 1984 shall not exceed 35 per centum of the total costs for such activities carried out by the Service for such year.' ";

(3) renumbering paragraphs (4) and (5), respectively, as paragraphs (3) and (4); and

(4) amending paragraph (3), as so renumbered, by deleting "during the period beginning October 1, 1981, and ending September 30, 1984", and inserting in lieu thereof "during the period beginning October 1, 1981, and ending September 30, 1988".

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